



## Defined Contribution Chair's Statement 2019

This statement explains how the Trustee Board has met the legal requirements for running the Industry-Wide Defined Contribution Section of the Railways Pension Scheme (the "IWDC Section") in the year from 1 January 2019 to 31 December 2019 ("the Scheme Year").

### Funds for members who don't choose their investments (the "default" investment arrangements)

The Trustee has chosen a default investment arrangement for members who have not chosen their own funds. Members can also choose to invest in the default arrangement, an alternative lifestyle arrangement or self-select from the investment funds offered. Currently more than 70% of members have some or all of their contributions invested in the default arrangement.

The Trustee has adopted the following investment strategy and investment objectives for the default arrangement:

- To generate long-term growth in excess of inflation over members' working lifetimes. The IWDC Section may be members' main form of retirement saving and so the default aims to seek growth while mitigating risk through diversification by investing in the Long-Term Growth Fund. This Fund seeks to achieve returns similar to global stock markets over the longer term, but with lower volatility.
- To reduce investment risk for members as they approach retirement by switching to less volatile funds. For the funds in the IWDC Section this is achieved by automatic switching to bonds and cash over 10 years up to the member's target retirement age. The Trustee has assumed that members will draw 25% of their funds as a tax-free lump sum and buy an annuity with the rest.

The default arrangement for the IWDC Section is shown below:

DC Scheme	Growth Portfolio	Portfolio at Target Retirement Age	Length of switching period
IWDC Section	100% Long Term Growth Fund	25% Deposit Fund 75% Aggregate Bond Fund	10 Years

There is more information about investment strategy in the Trustee's Statement of Investment Principles, which is included as Appendix 1 to this statement.

### Reviewing the default investment arrangements

A formal, in-depth review of the default arrangement is required under legislation at least every three years. The last formal review was completed by the Trustee's DC Committee (DCC) on 2 March 2017. This was a comprehensive review covering all the investment funds offered, including the investment strategy adopted for the default and alternative lifestyle arrangements.



The next formal review of the investment arrangements, including the default arrangement, is currently underway, and commenced at the DCC meeting on 3 September 2019. This review will be completed during 2020 and we will share the outcome of that review with you in next year's Chair's Statement.

In addition, the DCC conducted various interim reviews during the Scheme Year as follows:

- At each of its quarterly meetings during the Scheme Year (12 March 2019, 14 May 2019, 3 September 2019 and 10 December 2019), the DCC monitored the performance of the investment funds offered. This considered each fund's performance over various time periods to the previous quarter end. No issues were identified by the DCC as a result of this regular monitoring of performance.
- At its meeting on 12 March 2019, the DCC conducted an in-depth performance review of the investment funds offered, including those within the default arrangement. This included an assessment of the investment funds' performance against their investment objectives as well as against appropriate peers, where possible. The outcome of this review was that the DCC remains comfortable that the investment funds will continue to meet their investment objectives in the future.
- At its meeting on 14 May 2019, the DCC reviewed the membership of the IWDC Section. This review considered the demographic profile of the membership as well as the investment choices that they had made. No immediate changes were made as a result of this review, however the findings will be factored into the next formal review of the investment arrangements which is currently underway.

## Charges and transaction costs paid by members

The Trustee has taken account of statutory guidance when preparing this statement about charges and transaction costs. During the Scheme Year ending 31 December 2019 the level of charges applicable to the funds in the IWDC Section, including the funds which are part of the default lifestyle strategy, were:

DC fund	Annual management charge %	Property costs %	Total %
Long Term Growth Fund	0.45	0.08	0.53
Global Equity Fund	0.16	-	0.16
Deposit Fund	0.19	-	0.19
Aggregate Bond Fund	0.28	-	0.28
Index Linked and Global Bond Fund	0.32	-	0.32



The total cost of the default arrangement depends on where a member is in the glide path. Below are illustrations at various stages throughout the switching period:

Fund mix	Time to retirement in years	Blended fund charge %
100% Long Term Growth Fund	10	0.53
60% Long Term Growth Fund 40% Aggregate Bond Fund	5	0.43
10% Long Term Growth Fund 70% Aggregate Bond Fund 20% Deposit Fund	1	0.29

RPMI Railpen, which manages the Scheme's investments, gives full transparency to the DCC on the underlying costs making up the annual management charges, such as investment management costs, legal costs, and IT costs. RPMI Railpen is also at the forefront in the pensions industry of obtaining full transparency from investment managers about costs in underlying investment funds (indirect costs) that the IWDC Section funds may invest in.

The IWDC Section funds are invested alongside the Scheme's defined benefit arrangements, using the same underlying pooled funds where possible. This means that IWDC Section members benefit from many of the same investment opportunities and cost controls as members of the defined benefit arrangements.

The Trustee also monitors the level of transaction costs incurred by the funds each year. Such costs include broker commissions, commissions of futures, transfer taxes, and other fees such as bank fees, search fees, legal fees, and stamp duty.

It is not possible to obtain complete cost information in time for this statement as for certain asset classes this information is sought from annual reports and audited accounts of the underlying funds which have not yet been published. Transaction cost information has been requested from the asset managers before their accounts are published but not all of the managers had been able to supply the information by the date of signing this statement. The table below shows the transaction costs obtained for each fund, along with the percentage of the fund by asset value for which we have managed to obtain transaction cost information.

DC fund	Asset value £m	2019 transaction costs as % of assets under management	Proportion of fund for which information is available %
Long Term Growth Fund	50.6	0.04	85
Global Equity Fund	61.7	0.06	100
Deposit Fund	4.7	N/A	N/A
Aggregate Bond Fund	17.0	0.13	100
Index Linked and Global Bond Fund	2.6	0.00	100



RPMI Railpen continually reviews its processes for monitoring transaction costs. Having participated in the PLSA Cost Transparency Initiative pilot in 2018, we continue to use the newly developed cost templates to capture information from asset managers.

The Trustee minimises transaction costs arising from buying and selling assets, as far as possible, through the pooling arrangements within the railways pension schemes. Where it can, it matches members and sections that wish to sell units in a particular fund with those who wish to buy them, so it is not necessary to trade assets in the markets. There are strict policies and procedures in place to ensure that any trading costs are spread fairly between all IWDC Section members.

RPMI Railpen continues to make improvements to ensure that IWDC Section members get the best possible returns from their investments after all fees and transaction costs have been accounted for. The Trustee will continue to monitor the funds' costs and charges closely.

We are required to illustrate the cumulative effect of costs and charges on the value of members' fund values over time. There is a prescribed method for doing this, based on a 'representative' member of the IWDC Section. This illustration is included at Appendix 2 to this statement.

## **Good value for members**

In order to assess whether the IWDC Section offers good value for members, a review is performed each year. The annual review described below covers the period from 1 January 2019 to 31 December 2019.

The DCC agreed the assessment criteria at its meeting on 10 December 2019 and completed the review at its meeting on 18 March 2020. The key areas for consideration were investment, administration, communications and governance.

The Trustee reviewed the level of charges in each fund and the investment returns delivered to members. We have also considered how the charges borne by members (the costs of membership) compare against the services and benefits provided by the DC arrangements (the benefits of membership).

The benefits of membership include, amongst other things:

- the design of the default arrangements and how they reflect the interests of members;
- the range of investment options and strategies;
- the efficiency of administration processes, and the extent to which RPMI, as administrator, met and exceeded its service level standards for the Scheme Year;
- the quality of communications delivered to members; and
- the quality of support services and Scheme governance.

As part of assessing these items, we have obtained data and considered how some of these factors rated against other options available in the market. The latest CEM Benchmarking report, published in February 2020, was used to facilitate this review. The CEM Benchmarking report is a comprehensive benchmarking report that compares service levels, costs, volumes and staffing levels in total and by activity to similar companies. In addition, the Trustee agrees internal policies for communication strategies and investment objectives, and the assessment compared these agreed policies with what had been achieved in 2019. In terms of reviewing the governance arrangements of the scheme the Trustee met the Pensions Regulator's authorisation and supervision regime criteria introduced by the Pension Schemes Act 2017 and the Occupational



Pension Schemes (Master Trusts) Regulations and the IWDC Section became an authorised master trust on 2 August 2019.

These key areas are reviewed independently and collectively to determine the appropriate rating for the assessment.

Another important area of consideration is the ease and ability by which members can view or make changes to their investments. RPMI offers members a secure online portal, [www.railwayspensions.co.uk](http://www.railwayspensions.co.uk), to provide a secure personal online account for all DC active members who register for this service. The account provides members with an overview of their investment holdings, the ability to view recent contributions (both member and employer) and the ability to move their investments between different funds. A new portal, with improved functionality for members, is being rolled out to members. This roll-out started in 2019 and will be completed in 2020.

Based on our assessment, we concluded that the IWDC arrangement represents 'good' value for members, with the main reason being the obtaining of Master Trust authorisation. The possibility of awarding a rating of 'very good' was considered, to reflect the factors associated with Master Trust authorisation, but a 'good' rating was considered more appropriate to reflect the delay with the continuing administration enhancements, which are not yet available to members. Where areas for improvement have been identified, plans are already in place to make the necessary changes. This reflects the commitment of both RPMI and RPMI Railpen to continuous improvement on behalf of the Trustee and Scheme members.

## **Processing core financial transactions**

The Trustee must ensure that core financial transactions are processed both promptly and accurately. These include:

- investment of contributions;
- transfer of members' assets to and from the Scheme, and between sections within the Scheme;
- switching between investments within the Scheme; and
- payments out of the Scheme to members and beneficiaries.

Service Level Agreements ("SLAs") are in place for all of these core financial transactions, ranging from two to five working days. The DCC received a DC specific administration report from RPMI every quarter during the Scheme Year setting out whether these SLAs were achieved. Within the administration report there is narrative which highlights any core financial transaction issues to the Trustee. Where necessary ad-hoc reports are commissioned so the DCC can review the progress of any issues raised. Following on from work completed in 2018, the DCC continued to receive additional reports pertaining to the volume of DC contributions held in suspense during 2019. This was to provide oversight of the continued improvement in this area. As at the end of the Scheme Year there were no unresolved issues reported.

Additionally the DCC monitors RPMI's performance and ensures that improvements to processes and controls are implemented where necessary. The DCC monitors this through the provision of the annual Internal Control Assurance Report issued by RPMI, which is available on their website. This report outlines specific control procedures and independently demonstrates the strength of these controls.



## Trustee knowledge and understanding (“TKU”)

RPMI runs a comprehensive induction programme for new Trustee Directors which ensures that they have good awareness and understanding of the scheme’s governing documentation (including the trust deed and rules, statements of investment principles and funding principles, and relevant policies), scheme funding and investment, pensions and trust law and the role of a trustee. Individuals who have been nominated to become a trustee director must complete the Pensions Regulator’s Toolkit before they can be appointed as a Trustee Director of the Railways Pension Scheme and this process was completed for two trustee directors who were appointed in 2019. The Trustee Toolkit is an online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes. The toolkit includes a series of online learning modules and downloaded resources developed to help trustees meet a minimum level of knowledge and understanding introduced by the Pensions Act 2004. There is also a requirement for Trustee Directors to refresh the Trustee Toolkit every three years.

In addition to all Trustee Directors having completed the Pensions Regulator’s Trustee Toolkit, eleven out of sixteen Trustee Directors hold the Pensions Management Institute’s Award in Pension Trusteeship, providing formal recognition of these Trustee Directors’ knowledge and understanding.

Existing Trustee Directors receive regular training throughout the year, either at quarterly Trustee or Committee meetings, three training workshops or at the strategy day which Directors attend each year. They are also encouraged to attend external conferences and seminars on specific topics of interest and to increase their general knowledge and understanding.

To further ensure the Trustee meets the required level of knowledge and understanding introduced by the Pensions Act 2004, the Trustee Directors must complete a training needs analysis each year and this was completed in Q1 2019. The analysis is based on the Pensions Regulator’s indicative Trustee Knowledge and Understanding syllabus. This is used to assess training needs for the year ahead by identifying particular areas where knowledge is less strong for individuals and for the Board as a whole. Alongside this, the Trustee compiles a skills matrix to detail the relevant skills and experience of each member of the Trustee Board. Together, these demonstrate the strength and depth of expertise that each is able to bring to the role. The annual review of the skills matrix ensures that any gaps are identified and that the necessary additional training and development is undertaken by the relevant Trustee Director. The particular topics identified for further training are built into the training provided by RPMI and also third parties at the Trustee’s meetings and workshops throughout the year.

The Trustee Directors all have good knowledge of the Scheme’s trust documentation, the latest Statement of Investment Principles, pensions and trust law, and the principles of pension funding and investment. This is evidenced by the latest completed training needs analysis and supplemented by training for Trustee Directors.

During the Scheme Year, RPMI gave training for Trustee Directors on:

- The approach to the 2019 RPS valuation
- Risk and success
- Effective Chairing Skills
- Diversity and inclusion



In addition to this, members of the DCC were provided with training on:

- The compliance regime for authorised master trusts;
- Developments relating to pension freedoms and choice; and
- The wider master trust market.

These topics were identified as appropriate training based on the 2019 training requirements and skills analysis review or were requested on an ad-hoc basis by the Trustee.

The Trustee provided a response to the Pension Regulator's consultation on the future of trusteeship and governance in September 2019.

The Trustee Directors completed meeting effectiveness questionnaires after each full Trustee Board or Trustee Committee meeting in 2019. Members of the in-house Trustee Governance team discuss the responses with the relevant Chair to seek to improve the operation and running of Trustee meetings.

The Trustee Board is made up of a wide range of Trustee Directors who each possess individual skills and experience that are relevant to the role of Trustee of a Master Trust like the IWDC Scheme. The Trustee Board is diverse in employment experience and history. Many are long standing Trustee Directors and have served on several of the Trustee's committees and subsidiary boards over the years, including Benefits and Funding, Investment, Defined Contribution, Audit & Risk, Railpen and RPMI. They therefore have significant experience of all aspects of the Railways Pension Scheme and its corporate management activities, and this is spread across the whole board rather than concentrated in one or two individuals. The Trustee Directors have a wide range of experience, from working as Pensions Managers for employers in the rail or other large scale industries, to senior financial professionals with large employers. A number of Trustee Directors have a background in trade unions. Many worked on their unions own schemes and negotiated with employers on pensions and benefits on behalf of their members. The Trustee Board is therefore sufficiently diverse to ensure challenge and accountability between Trustee Directors, and their collective business and senior management experience will ensure that they are in a position to challenge robustly the advice they receive. In particular, through the trade union representatives, the Board gains insight into the membership's perspective of how the scheme is run and the benefits it offers.

As a result of the training activities which the Trustee Directors have completed, individually and collectively as a Board, the broad range of experience held by Trustee Directors and the annual training analysis, skills matrix review and effectiveness reviews, I am confident that the combined knowledge and understanding of the Board, together with the professional advice available to it, enables it to exercise properly its functions as the Trustee of the IWDC Section of the Railways Pensions Scheme and the Railways Pension Scheme generally.

## **Additional governance requirements for multi-employer schemes**

The Occupational Pensions Scheme (Scheme Administration) Regulations 1996, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (the "Administrative Regulations"), require the Trustee Board of any 'relevant multi-employer scheme' to have a majority of 'non-affiliated trustees', including the Chair.



From April 2016, the Trustee has been required to comply with this additional governance standard. This additional governance standard is designed to offer additional protections for members and ensure that the Trustee acts in their best interests.

The Trustee Board has considered these requirements and determined that all Trustee Directors, including the Chair, can be classed as 'non-affiliated trustees' for the purpose of the legislation. This means that we have considered carefully any links that Trustee Directors may have with companies providing services to the Scheme, and reviewed the procedures in place for managing any conflicts of interest that may arise and concluded that all of the Trustee Directors are independent of any undertaking which provides advisory, administration, investment or other services in respect of the IWDC Section, taking account of the matters set out in Regulation 28(3) of the Administration Regulations. We have also reviewed our appointment process to ensure that it is open and transparent and allows representation on the Trustee Board from across the rail industry. We will ensure that non-affiliated Trustee Directors, including the Trustee Chair, are always in the majority on the Trustee Board.

Two non-affiliated, Trustee Directors were appointed during the Scheme Year, in accordance with the governing documents of Railtrust Holdings Limited:

- Nominations were sought from all the relevant organisations (including Trade Unions and Pensions Committees as appropriate) as part of the Scheme's process for appointing an Employee Director vacancy in the Pensioner electoral group. There was only one nomination and so Peter Holden was appointed to the Trustee Board.
- Nominations were sought from all the relevant organisations (including Trade Unions and Pensions Committees as appropriate) as part of the Scheme's process for appointing an Employer Director vacancy in the Passenger Train Operating Companies electoral group. Following a ballot exercise Richard Murray was appointed to the Trustee Board.

The appointment of the Employee Director vacancy met the requirements of the Pension Act 2004 for the nomination and selection of Member Nominated Directors.

The Trustee Board has been kept informed of developments relating to the Pensions Regulator's authorisation and supervision regime introduced by the Pension Schemes Act 2017 and the Occupational Pension Schemes (Master Trusts) Regulations 2018. The IWDC Section of the Railways Pensions Scheme submitted its application in March 2019 and became an authorised master trust on 2 August 2019.

## Contacting the Trustee Board

The Trustee Board encourages Scheme members to share their views about the Scheme, the benefits it offers, the investment options available, and their plans for how they intend to use their funds to provide an income in retirement.

IWDC active and preserved members receive the annual Insight newsletter in May each year. The newsletter provided to members in 2019 encourages members to provide feedback via an online survey using a QR code to direct members to the feedback facility. A dedicated online member advisory group has also been established, and promoted through the periodic newsletters and website, giving members the chance to share their views on key topics. This insight is reported to the Trustee and directly shapes the development of member communications.



Alternatively, if members prefer they can contact the member Helpline on the free phone number 0800 012 1117. The annual newsletter and bulk member communications refer to the helpline number as standard.

Additionally many Trustee Directors also have regular contact with members through their day-to-day activities, for example as Pensions Managers of participating employers or as Trade Union officials. The Trustee have considered the size, nature and demographics of the Scheme and by providing multiple channels and media through which members may contact the Scheme, in line with its Communications Strategy, the Trustee is satisfied that all members from all sections of the Scheme are encouraged to share their views, in particular in response to key communications or Scheme events.

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**Chris Hannon, Trustee Chair**  
19 March 2020

**Appendix 1**                      Statement of Investment Principles

**Appendix 2**                      Illustration of the cumulative effect of costs and charges on the value of members' fund values over time



## **Railways Pension Trustee Company Limited (“The Trustee”) Statement of Investment Principles (“SIP”)**

### **Introduction**

1. Railways Pension Trustee Company Limited is the trustee body for the railway pension schemes listed in Schedule 1 (the “Schemes”) and for each separate Section within the Railways Pension Scheme (a “Section”).
2. The Trustee has, following consultation with the employers, drawn up this SIP to comply with the requirements of the Pensions Act 1995 (as amended) and subsequent legislation, including The Occupational Pension Schemes (Investment) Regulations 2005. The Trustee has received written advice from the Trustee’s wholly owned subsidiary RPMI Limited before adopting this SIP.

### **Responsibilities and Process**

3. The Trustee is responsible under the Pensions Act 1995 for determining the overarching investment principles used across the Schemes. These are outlined in this document. Investment strategy for each Scheme and Section is set taking account of, amongst other factors, the specific liability profile of that Scheme or Section. The Trustee has a sub-committee, the Integrated Funding Committee (“IFC”), responsible for carrying out this work. The performance objectives and asset allocation strategies for each Scheme and Section are included in their respective individual Investment Policy Document.
4. In the case of Sections where the employer has elected to establish a “Pensions Committee”, and those Schemes where a Management Committee has been established, the power to set investment strategy lies with the committees (with the exception at the time of adoption of this SIP, of the British Transport Police Force Superannuation Fund, RPS Govia Thameslink Railway Section and RPS London Overground Section). In the case of these committees, the Trustee retains legal responsibility for implementation of investment policy and ensuring that any policy adopted and set out in the relevant Investment Policy Document complies with the statutory requirements. This function has been delegated in turn by the Trustee to RPMI.
5. The SIP is reviewed following each triennial actuarial valuation and following any significant change in investment principles of the Schemes. The Trustee will consult with the relevant employers about any changes to the SIP. However, the employers have agreed that where changes are proposed to any specific Investment Policy Document, the Trustee only needs to consult with the employers which participate in the Scheme or Section to which that Document relates.

### **Investment Beliefs**

6. The Trustee has agreed core beliefs that set out a clear view on investment philosophy and Scheme governance. These beliefs are used to inform the investment process used across the Schemes.



## Investment Objectives

7. The Trustee's mission is to pay members' pensions securely, affordably and sustainably. It achieves this through investing the assets of each Scheme and each Section in a way that enables them to be used to pay the benefits promised when they fall due, whilst balancing this against the cost that must be met by the employers and members.
8. To facilitate achieving this objective, the Trustee adopts an integrated approach to covenant, funding and investment policy. Due to the different maturity profiles of the liabilities of the individual Schemes and Sections, along with the strength of covenant of each sponsoring employer and any other specific characteristics, investment strategies and therefore expected investment returns will vary widely. Investment objectives therefore have to be set separately for each Scheme and Section, with a consistent framework used for evaluation. The agreed approach takes account of return, risk and liquidity requirements (within a "RRL framework"), to enable suitable investment strategies to be adopted for each Scheme and Section.
9. The RRL framework outlines the expected investment strategy for each Scheme and broad Section groupings (effectively grouped by covenant strength and maturity profile). The individual components of the RRL framework are considered as follows:
  - 9.1. Expected investment return is considered taking into account risk and affordability, making use of the Pooled Fund range to accommodate individual Scheme and Section requirements. The expected return of the proposed investment strategy is judged over the long-term and evaluated with reference to the financial assumptions adopted by the Trustee. The technical provisions funding basis used in triennial valuations is considered with reference to these expected returns;
  - 9.2. Investment risk is considered using several measures with a focus on downside risk, consistent with the Trustee's belief that investment risk is multi-faceted. The level of investment risk will take account of the strength of covenant;
  - 9.3. Liquidity requirements are evaluated with reference to maturity, the strength of covenant of the sponsoring employer and whether the Scheme or Section is deemed open or closed to new members.
10. The resultant portfolios and investment strategy for each Scheme and Section are expressed as a mix of return-seeking, defensive and matching assets. Each of these portfolios, in aggregate, is expected to generate a long-term return that will match or exceed the discount rates used in the funding assumptions for the respective Scheme or Section.

## Management of Pooled Funds

11. The Schemes and Sections invest in a number of HMRC approved pooled funds (the "Pooled Funds") operated by RPMI on behalf of the Trustee. These funds are used to construct each investment portfolio agreed under the RRL framework and are intended to accommodate the differing investment requirements of the Schemes and Sections.



12. As such, each Pooled Fund has distinct return, risk and liquidity characteristics and is either multi-asset or single-asset class by design. The Trustee recognises that the use of a range of traditional and alternative asset classes with distinct return drivers may offer diversifying characteristics. Accordingly, the default offering is to use predominantly multi-asset Pooled Funds which invest in a wide range of assets and strategies. However, Pensions Committees and/or employers can request to make use of other Pooled Funds offered by the Trustee consistent with the agreed investment strategy. The investment performance of each Pooled Fund is measured against an agreed objective and the objective and investment guidelines for each Pooled Fund are set out in the individual fund product particulars.
13. Under the RRL framework, the proportion of the Scheme or Section assets to be held in a particular Pooled Fund is not fixed and may, therefore, be changed from time to time by the Trustee (or RPMI under delegated authority) in order to comply with the RRL framework in the manner the Trustee considers appropriate. Where the rules of a Scheme or a Section require the investment policy to establish the proportion of Scheme or Section assets to be held in each of the Pooled Funds, that policy will be recorded in the relevant Investment Policy Document.
14. The Trustee regularly reviews the Pooled Fund range and is free to change the range of Pooled Funds, the associated objectives and investment guidelines from time to time, as it considers appropriate, in accordance with the rules of the Schemes.
15. The investment of the assets within each Pooled Fund is delegated under an Investment Management Agreement to a wholly owned subsidiary of the Trustee, Railway Pension Investments Limited (“RPMI Railpen”) or to fund managers appointed by RPMI Railpen (together the “Fund Managers”). The investment arrangements are overseen by the Railpen Investment Board (“RIB”).
16. The multi-asset Pooled Funds are managed within a strategic framework, agreed on a regular basis with the RIB. The single-asset Pooled Funds are managed to specific objectives with permitted tolerances. Where relevant, RPMI Railpen and the Fund Managers are responsible for deviations from agreed asset allocations within delegated authority limits. Active management is not used by default but will be considered when it is judged to be the most efficient implementation of a given strategy.
17. RPMI Railpen and the Fund Managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and product particulars. This includes the power to rebalance funds from available cash or make transfers in order to keep within stipulated asset allocations or restrictions.
18. In addition to the Pooled Funds, the Schemes and Sections may invest assets with an insurance company regulated by the Prudential Regulation Authority in order to accomplish a transfer of risk.

## **Performance Measurement**

19. The performance of each Scheme and Section, and the investment performance of the portfolios of RPMI Railpen and the Fund Managers, are measured for the Trustee. Also, investment performance of each Scheme and Section are monitored by RPMI and reported to the IFC, the Pensions Committees (where appropriate) and the relevant



employers. RIB monitors the performance of RPMI Railpen and the Fund Managers against long- term performance objectives and compliance with operating parameters.

## **Risk Management**

20. The Trustee recognises that there are various investment and operational risks to which any pension scheme is exposed, and gives qualitative and quantitative consideration to such risks. A number of steps are taken to manage such risks including:
  - 20.1. an Integrated Funding Committee with specific responsibilities including agreeing integrated funding plans for each Scheme and Section, using the RRL framework (as described in paragraphs 8, 9 and 13), and monitoring performance against their agreed funding plans;
  - 20.2. an Audit and Risk Committee with specific responsibilities including review of financial control and risk management systems;
  - 20.3. appointing a global custodian to hold assets and RPMI monitoring the custodian's service provision and credit-worthiness;
  - 20.4. appointing the Railpen Investment Board (RIB) with specific responsibilities including oversight of the management of the Pooled Funds;
  - 20.5. the establishment of the Investment Business Risk Committee to oversee monitoring of investment and operational risks.

## **Additional Assets**

21. The Trustee is responsible for providing appropriate fund choices for the investment of defined contribution ("DC") assets. This includes members' additional voluntary contributions ("AVCs") and contributions in respect of members of the defined contribution schemes ("DC Schemes") including the Industry-Wide Defined Contribution Section ("IWDC") and the Defined Contribution Arrangement.
22. The range of funds made available for the DC fund arrangements is reviewed regularly and may be changed by the Trustee from time to time in accordance with applicable rules of the Schemes. The intention is to ensure an investment philosophy consistent across both defined benefit and defined contribution arrangements to the extent possible.
23. Further information on AVC Funds can be found in Schedule 2 and further information on DC Schemes can be found in Schedule 3.

## **Costs**

24. The Trustee recognises that strict control of costs is important in contributing to good investment returns. As such, RPMI and RPMI Railpen are asked to ensure that all aspects of cost from the responsibilities and mandates exercised by those involved in the investment process, both internal and external, are kept under regular review. The aim is to implement Scheme and Section strategy in the most efficient manner possible, using internal resources wherever appropriate. Investments within the Pooled Funds are considered in terms of the most efficient way to access desired return drivers. As part of



this process, fees payable to external Fund Managers and costs relating to the investment, management, custody and realisation of Pooled Fund assets are kept under regular review.

## **Environmental, social and governance considerations**

25. The Trustee recognises its legal duty to consider factors that are likely to have a financially material impact on investment returns over the period during which benefits will need to be funded by the Schemes' investments.
26. These factors include, but are not limited to, environmental, social and governance (ESG) factors, including, but not limited to climate change.
27. The Trustee expects RPMI Railpen and Fund Managers to take account of ESG factors in the selection, retention and realisation of investments. In addition, RPMI Railpen takes into account the Fund Managers' policies in relation to ESG factors when selecting Fund Managers and also monitors Fund Managers' compliance with such policies.
28. The Trustee will continue to monitor and assess ESG factors and the risks and opportunities arising from them, as follows:
  - 28.1 the Trustee will undertake annual training on ESG considerations in order to understand fully how ESG factors including climate change could impact investments;
  - 28.2 the Trustee will require RPMI Railpen and Fund Managers to provide information annually about their ESG policies and how they integrate ESG into their investment processes.

## **Non-financial matters**

29. The Trustee will consider factors that are expected to have a material financial impact on investments. Non-financial matters may be considered on a case-by-case basis in relation to the selection, retention and realisation of investments where the Trustee has reasonable cause to believe that scheme members would share concerns that such matters would have a materially detrimental impact on the good reputation of the Schemes and potentially lead to a material risk of financial detriment to the Schemes.
30. The Trustee will review its policy on non-financial matters in conjunction with its regular review of the SIP.

## **Voting and Engagement Policy**

31. The Trustee believes that companies with robust corporate governance structures are more likely to achieve superior long-term financial performance and will manage their risks and opportunities effectively. It signals its expectations to companies through RPMI Railpen's voting and engagement activities.
32. RPMI Railpen's global voting policy sets out expectations for issuers, and may be read in conjunction with other market specific guidance, also available on RPMI Railpen's website.



Thoughtful voting alongside constructive engagement with portfolio companies supports the Trustee's investment objectives.

33. RPMI Railpen, on behalf of the Trustee, is a signatory to the UK Stewardship Code, and engages with its external Fund Managers to encourage them to adopt practices in line with the spirit of this Code as appropriate.
34. The Trustee expects RPMI Railpen to:
  - 34.1 exercise rights attaching to investments and to undertake engagement activities in accordance with RPMI Railpen's global voting policy and current best practice, including the UK Stewardship Code;
  - 34.2 select Fund Managers which have appropriate ESG policies and to monitor their compliance with those policies;
  - 34.3 evaluate all financially material considerations, including ESG factors (including, but not limited to, climate change) as part of the decision-making process around its stewardship activities;
  - 34.4 provide, at least annually, details of its ESG policies and stewardship activities and those of Fund Managers.
35. The Trustee's delegation to RPMI Railpen of the exercise of rights attaching to investments and engagement activities includes the delegation of the functions of engaging with and the monitoring of relevant persons about relevant matters. Therefore, these functions should be exercised in circumstances that are consistent with RPMI Railpen's global voting policy and current best practice, including the UK Stewardship Code.
36. The Trustee expects RPMI Railpen to update the Trustee periodically (and at least annually) on its ESG policies and its stewardship activities and on those of Fund Managers.

**Adopted by the Trustee on 18 September 2019**  
**Consultation with employers completed 28 October 2019**



## Schedule 1

### Railways Pension Schemes

This Schedule lists the Schemes for which the Railways Pension Trustee Company Ltd (RPTCL) is "The Trustee":

- Railways Pension Scheme ("RPS")
- British Railways Superannuation Fund ("BRSF")
- British Transport Police Force Superannuation Fund ("BTPFSF")
- BR (1974) Fund



## Schedule 2

### Additional Voluntary Contribution (“AVC”) funds

#### 1. Introduction

This Schedule is appended to and should be read in conjunction with the Statement of Investment Principles (“SIP”) adopted by the Railways Pension Trustee Company Limited (“the Trustee”), as amended from time to time.

The main AVC arrangement is open to all contributing members of the Railways Pension Scheme (defined benefit Sections) and is known as BRASS. It is also open to members of the British Transport Police Force Superannuation Fund who joined before 1<sup>st</sup> April 2007 and eligible members of the British Railways Superannuation Fund.

AVC Extra is the second contribution top-up arrangement for contributing members of the Railways Pension Scheme (defined benefits sections other than the Network Rail Section) and members of the British Transport Police Force Superannuation Fund who joined before 1<sup>st</sup> April 2007.

#### 2. Objective

The Trustee recognises that individual members have differing investment needs and these may change during the course of their working lives. It also recognises members have differing attitudes to risk.

The overall objective of the Trustee is to provide a range of funds suitable for members to invest their AVC contributions. For members who do not wish to make their own investment choice, the Trustee makes available a default option.

In setting the range of investment options, the Trustee considered member’s objectives as being defined by the expected:

- Level of outcome (long-term return)
- Variability of outcome (long-term risk)
- Volatility of journey, in particular as the member’s target retirement age approaches
- (short-term risk)

#### 3. Investment strategy

The Trustee considered a range of asset classes and associated expected returns and volatility of returns, the suitability of styles of investment management, and the need for diversification. The suitability of various lifestyle arrangements was also taken into account in setting the lifestyle and default strategies.

After taking advice, the Trustee has made lifestyle options available to members, matching various degrees of risk. These options offer a changing investment programme designed to meet a typical member’s perceived changing financial needs as they move through their working life and approach retirement. This is achieved by switching from return seeking assets, which aim for long-term growth in excess of inflation, to lower risk assets as a member approaches their nominated target retirement age.



One of the lifestyle options operates as a default vehicle, should a member not wish to make their own selection from the available fund range. The default lifestyle option is designed to be appropriate for a typical member with a predictable target retirement age.

The Defined Contribution Committee of the Trustee Board was established to ensure appropriate management and governance of the BRASS, AVC Extra, and DC Schemes' arrangements. Specific responsibilities of the Committee include oversight of investment performance and reviewing communications and investment options as appropriate.

## **4. Fund choices**

The following funds are available to all BRASS and AVC Extra members:

- Long Term Growth Fund
- Global Equity Fund
- Aggregate Bond Fund
- Index-Linked and Global Bond Fund
- Deposit Fund

The BRASS and AVC Extra arrangements also offer two lifestyle options:

- Long Term Growth Lifestyle (the default option for BRASS)
- Global Equity Lifestyle (the default option for AVC Extra)

The fund range is provided through a “white-labelled” framework to help accommodate underlying manager changes and future enhancements without undue disruption. Within this structure the Trustee considers suitable pooled funds managed by RPMI Railpen where possible.

Certain AVC members may also have holdings in the Pension Assured Fund (“PAF”). However, it is noted that this Fund is not accepting new contributions.

The Trustee expects the long-term return on the Long Term Growth Fund and Global Equity Fund to exceed price inflation. The long-term returns on the bond and deposit funds are expected to be lower. However, the bond funds are expected to more closely match the price for annuities, giving some protection in the amount of secured pension for members closer to retirement. The Deposit Fund is expected to provide protection against changes in short-term nominal capital values, and may be appropriate for members close to their target retirement age that plan to receive part of their retirement benefits in the form of tax-free cash.

## **5. Fund annual charges**

The Fund Managers, RPMI Railpen and RPMI levy a charge on each fund, calculated by reference to the market value of assets under management. These charges are levied on each member's investments and the members incur these fees. They may vary depending on the fund chosen and manager performance, however they are considered by the Trustee to be reasonable.

## **6. Risks**

There are a number of risks within the BRASS and AVC Extra arrangements including:

# Appendix 1



- Risk of inadequate long-term returns, in particular that fund values don't increase with inflation. To manage this, the Trustee includes funds that have an expected long-term return above inflation although this is not guaranteed over any given period;
- Risk of deterioration in investment conditions near retirement. To address this the Trustee has made available lower estimated risk funds and lifestyle options that default into lower estimated risk funds as members approach target retirement age;
- Risk of lack of diversification. The Long Term Growth Fund is diversified across a range of asset classes and managers. Other funds are diversified by underlying holdings;
- Risk of underlying Fund Managers and/or RPMI Railpen not meeting their objectives. The Defined Contribution Committee provides oversight to the performance of the funds. The Railpen Investment Board oversees the performance of RPMI Railpen and the Fund Managers on a regular basis;
- Risk of inappropriate member decisions. This is addressed by:
  - making a default option available which the Trustee believes appropriate for the majority of members;
  - regular member communications; and
  - recommending members seek guidance and independent financial advice where appropriate.

The Trustee also reviews these risks as part of each formal strategy review. These take place at least every 3 years or more frequently if appropriate.

**NOTE:** Further information and factsheets for the BRASS and AVC Extra funds can be found on the Railway Pensions website [www.railwaypensions.co.uk](http://www.railwaypensions.co.uk).



## Schedule 3

### Defined contribution schemes

#### 1. Introduction

This Schedule is appended to and should be read in conjunction with the Statement of Investment Principles (“SIP”) adopted by the Railways Pension Trustee Company Limited (“the Trustee”), as amended from time to time.

The defined contribution schemes (“DC Schemes”) are the defined contribution (also known as “money purchase”) pension arrangements of the Railways Pension Scheme for rail industry employees. They include the Industry-Wide Defined Contribution Section and the Defined Contribution Arrangement.

#### 2. Objective

The Trustee recognises that individual members have differing investment needs and these may change during the course of their working lives. It also recognises members have differing attitudes to risk.

The overall objective of the Trustee is to provide a range of funds suitable for members to invest their contributions. For members who do not wish to make their own investment choice, the Trustee makes available a default option.

In setting the range of investment options, the Trustee considered member’s objectives as being defined by the expected:

- Level of outcome (long-term return)
- Variability of outcome (long-term risk)
- Volatility of journey, in particular as the member’s target retirement age approaches (short-term risk)

#### 3. Investment strategy

The Trustee considered a range of asset classes and associated expected returns and volatility of returns, the suitability of styles of investment management, and the need for diversification. The suitability of various lifestyle arrangements was also taken into account in setting the lifestyle and default strategies.

After taking advice, the Trustee has made lifestyle options available to members, matching various degrees of risk. These options offer a changing investment programme designed to meet a typical member’s perceived changing financial needs as they move through their working life and approach retirement. This is achieved by switching from return seeking assets, which aim for long-term growth in excess of inflation, to lower risk assets as a member approaches their nominated target retirement age.

One of the lifestyle options operates as a default vehicle, should a member not wish to make their own selection from the available fund range. The default lifestyle option is designed to be appropriate



for a typical member with a predictable target retirement age. To ensure an appropriate level of diversification of the asset classes, the default lifestyle option utilises a diversified growth fund.

The Defined Contribution Committee of the Trustee Board was established to ensure appropriate management and governance of the BRASS, AVC Extra, and DC Schemes' arrangements.

Specific responsibilities of the Committee include oversight of investment performance and reviewing communications and investment options as appropriate.

## **Fund choices**

The following funds are available to all members of DC Schemes:

- Long Term Growth Fund
- Global Equity Fund
- Aggregate Bond Fund
- Index-Linked and Global Bond Fund
- Deposit Fund

The DC Schemes arrangements also offer two lifestyle options:

- Long Term Growth Lifestyle (the default option)
- Global Equity Lifestyle

The fund range is provided through a "white-labelled" framework to help accommodate underlying manager changes and future enhancements without undue disruption. Within this structure the Trustee considers suitable pooled funds managed by RPMI Railpen where possible.

The Trustee expects the long-term return on the Long Term Growth Fund and Global Equity Fund to exceed price inflation. The long-term returns on the bond and deposit funds are expected to be lower. However, the bond funds are expected to more closely match the price for annuities, giving some protection in the amount of secured pension for members closer to retirement. The Deposit Fund is expected to provide protection against changes in short-term nominal capital values, and may be appropriate for members close to their target retirement age that plan to receive part of their retirement benefits in the form of tax-free cash.

## **4. Fund annual charges**

The Fund Managers, RPMI Railpen and RPMI levy a charge on each fund, calculated by reference to the market value of assets under management. These charges are levied on each member's investments and the members incur these fees. They may vary depending on the fund chosen and manager performance, however they are considered by the Trustee to be reasonable.

## **5. Risks**

There are a number of risks within the DC Schemes' arrangements including:

- Risk of inadequate long-term returns, in particular that fund values don't increase with inflation. To manage this, the Trustee includes funds that have an expected long-term return above inflation, although this is not guaranteed over any given period;

# Appendix 1



- Risk of deterioration in investment conditions near retirement. To address this the Trustee has made available lower estimated risk funds and lifestyle options that default into lower estimated risk funds as members approach target retirement age;
- Risk of lack of diversification. The Long Term Growth Fund is diversified across a range of asset classes and managers. Other funds are diversified by underlying holdings;
- Risk of underlying Fund Managers and/or RPMI Railpen not meeting their objectives. The Defined Contribution Committee provides oversight to the performance of the funds. The Railpen Investment Board oversees the performance of RPMI Railpen and the Fund Managers on a regular basis;
- Risk of inappropriate member decisions. This is addressed by:
  - making a default option available which the Trustee believes appropriate for the majority of members;
  - regular member communications; and
  - recommending members seek guidance and independent financial advice where appropriate.

The Trustee also reviews these risks as part of each formal strategy review. These take place at least every 3 years or more frequently if appropriate.

**NOTE:** Further information and factsheets for the DC Schemes' funds can be found on the Railway Pensions website [www.railwaypensions.co.uk](http://www.railwaypensions.co.uk).

# Appendix 2



## Illustration of cumulative effect of costs and charges on the value of members' fund values over time

The effect of costs and charges for each of the funds that is open to new contributions is provided in the table below:

Years	Long Term Growth Fund		Global Equity Fund		Aggregate Bond Fund		Index-Linked and Global Bond Fund		Deposit Fund	
	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges
1	£7,618	£7,581	£7,572	£7,560	£7,358	£7,339	£7,342	£7,325	£7,296	£7,285
3	£13,274	£13,110	£13,073	£13,019	£12,161	£12,082	£12,097	£12,024	£11,909	£11,862
5	£19,529	£19,159	£19,075	£18,955	£17,083	£16,916	£16,948	£16,794	£16,551	£16,452
10	£38,138	£36,819	£36,523	£36,106	£29,934	£29,418	£29,517	£29,042	£28,307	£28,010
15	£61,765	£58,675	£57,992	£57,031	£43,613	£42,559	£42,761	£41,798	£40,324	£39,734
20	£91,551	£85,549	£84,239	£82,408	£58,184	£56,395	£56,736	£55,113	£52,658	£51,685
25	£128,881	£118,415	£116,159	£113,025	£73,715	£70,986	£71,504	£69,045	£65,368	£63,925
30	£175,445	£158,425	£154,804	£149,803	£90,282	£86,397	£87,131	£83,656	£78,516	£76,517
35	£233,292	£206,941	£201,410	£193,815	£107,964	£102,697	£103,689	£99,011	£92,165	£89,527
40	£304,911	£265,576	£257,429	£246,311	£126,845	£119,960	£121,252	£115,180	£106,382	£103,022
45	£393,327	£336,233	£324,569	£308,744	£147,019	£138,267	£139,904	£132,236	£121,237	£117,073

The effect of costs and charges for the default arrangement is also provided:

Years	DC Long Term Growth Lifestyle	
	Before charges	After all costs and charges
1	£7,618	£7,581
3	£13,274	£13,110
5	£19,529	£19,159
10	£38,138	£36,819
15	£61,765	£58,675
20	£91,551	£85,549
25	£128,881	£118,415
30	£175,445	£158,425
35	£233,292	£206,941
40	£293,754	£256,513
45	£330,589	£286,196

### NOTES:

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of inflation.
- The starting pot size is assumed to be £5,000.
- Inflation is assumed to be 2.5% each year.
- Member is assumed to be aged 20, with a target retirement age of 65.
- Monthly contributions are assumed to start at £200, increasing at 4% (assumed earnings inflation of 1.5%) each year until target retirement age.
- The assumed growth rates for each fund are as follows (costs and charges shown in brackets):
  - Long Term Growth Fund: 6.50% (0.61%)
  - Global Equity Fund: 5.75% (0.20%)
  - Aggregate Bond Fund: 2.25% (0.31%)
  - Index-Linked and Global Bond Fund: 2.00% (0.29%)
  - Deposit Fund: 1.25% (0.19%)
- The assumed growth rates, costs and charges for the default arrangements reflect those of the underlying funds that are held at each point in time.
- Costs and charges include property expenses and transaction costs.
- Transaction costs are based on an average of the last 5 years, all other costs and charges are forward-looking estimates.
- Values shown are estimates and are not guaranteed.